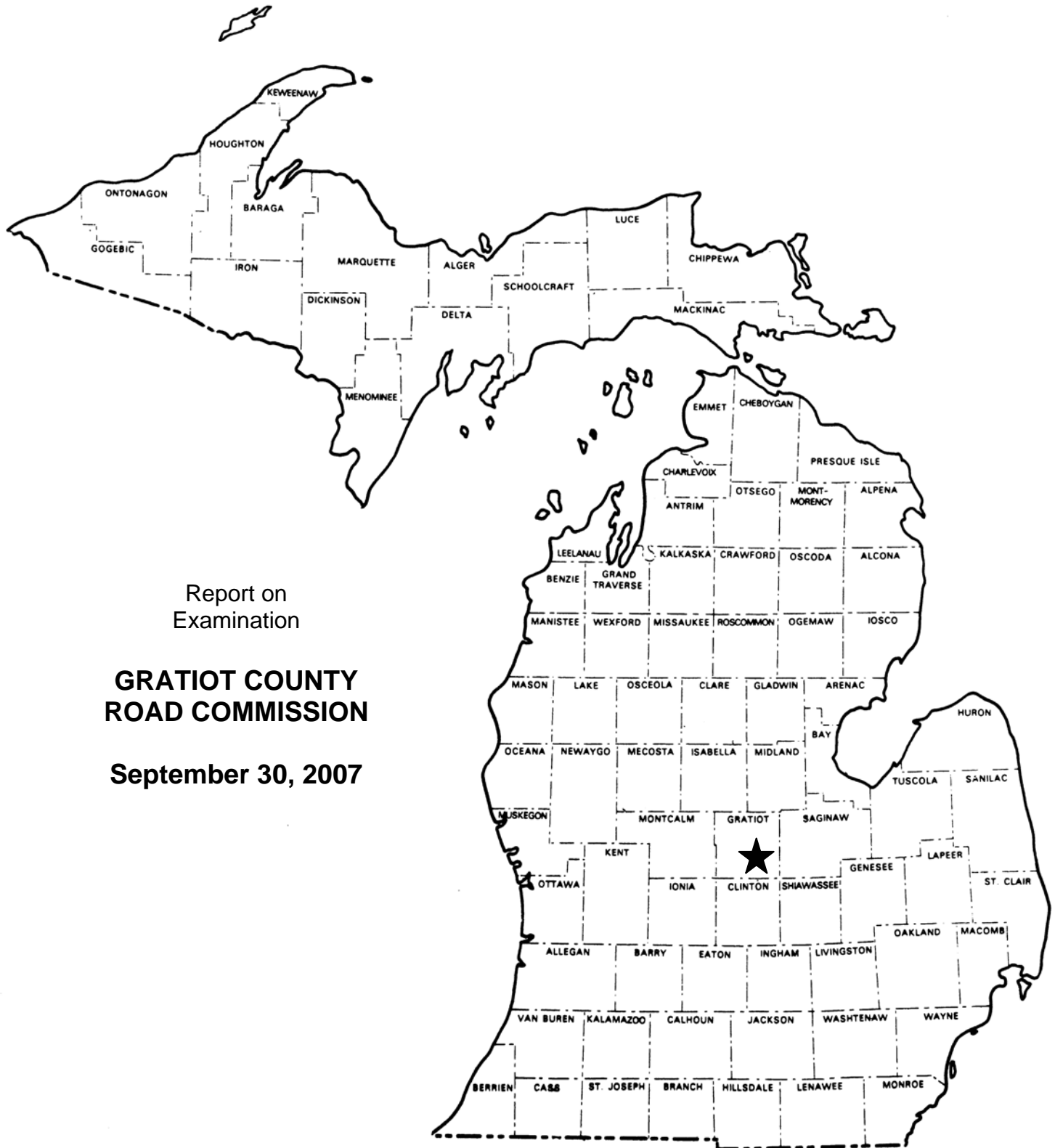


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**GRATIOT COUNTY
ROAD COMMISSION**

September 30, 2007

GRATIOT COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Denis Netzley
Chairman

Wesley O. Federspiel
Vice-Chairman

Leslie Whitford
Member

Mark Craft
Engineer/Manager &
Superintendent-County Highway Engineer

Thomas J. Mayan
Assistant County Highway Engineer

Betty Schumacher
Finance Director/Clerk

COUNTY POPULATION--2000
42,285

STATE EQUALIZED VALUATION--2007
\$1,210,879,210



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 7, 2007

Gratiot County Road Commission
Board of County Road Commissioners
200 Commerce Drive
Ithaca, Michigan 48847

RE: Unqualified Opinions on Basic Financial Statements Accompanied by
Required Supplementary Information and Supplementary Information

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Gratiot County Road Commission, a component unit of Gratiot County, Michigan, as of and for the year ended September 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Gratiot County Road Commission as of September 30, 2007 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2007 on our consideration of the Gratiot County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and

the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of the audit.

The Management's Discussion and Analysis on pages 1 through 6 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprises the Gratiot County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

GRATIOT COUNTY ROAD COMMISSION

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GRATIOT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Gratiot County Road Commission's management discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

GRATIOT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Report the Road Commission's Major Fund

The fund financial statements begin on page nine and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 3.61% or \$998,300 from \$27,634,253 to \$28,632,553 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$439,298 (or 27.26%). The investment in capital assets-net of related debt, increased by \$559,002 (or 2.15%).

Net assets as of year ended September 30, 2007 are as follows:

	2006	2007	Variance Increase (Decrease)	%
Current and Other Assets	\$ 2,475,533	\$ 2,659,971	\$ 184,438	7.45%
Net Capital Assets	26,022,578	26,581,580	559,002	2.15%
Total Assets	28,498,111	29,241,551	743,440	2.61%
Current Liabilities	353,350	127,467	(225,883)	-63.93%
Long-Term Liabilities	510,508	481,531	(28,977)	-5.68%
Total Liabilities	863,858	608,998	(254,860)	-29.50%
Net Assets				
Invested in Capital Assets				
Net of Related Debt	26,022,578	26,581,580	559,002	2.15%
Restricted	1,611,675	2,050,973	439,298	27.26%
Total Net Assets	\$27,634,253	\$28,632,553	\$ 998,300	3.61%

GRATIOT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2007 follows:

	Governmental Activities for 2006	Governmental Activities for 2007	Increase (Decrease)
Program Revenue			
License and Permits	\$ 26,740	\$ 37,273	\$ 10,533
Federal Grants	600,947	1,148,782	547,835
State Grants	4,349,010	4,966,249	617,239
Contributions From Local Units	862,738	798,621	(64,117)
Charges for Services	728,137	1,153,213	425,076
Investment Earnings	55,725	68,998	13,273
Reimbursements	61,748	55,381	(6,367)
General Revenue			
Gain on Equipment Disposal	23,375	127,415	104,040
Total Revenue	<u>6,708,420</u>	<u>8,355,932</u>	<u>1,647,512</u>
Expenses			
Primary Road			
Routine and Preventive Maintenance	1,172,830	1,328,520	155,690
Primary Road Structures Maintenance	4,923	6,590	1,667
Local Road			
Routine and Preventive Maintenance	2,281,839	2,618,736	336,897
Local Road Structures Maintenance	9,476	674	(8,802)
State Trunkline Maintenance	711,619	1,085,596	373,977
Net Equipment Expense	81,211	(129,286)	(210,497)
Net Administrative Expense	474,874	407,348	(67,526)
Non-Road Project	85,528	24,518	(61,010)
Infrastructure Depreciation	2,113,840	2,013,662	(100,178)
Interest Expense		1,524	1,524
Compensated Absences	(17,800)	(251)	17,549
Total Expenses	<u>6,918,340</u>	<u>7,357,631</u>	<u>439,291</u>
Change in Net Assets	<u>\$ (209,920)</u>	<u>\$ 998,301</u>	<u>\$ 1,208,221</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

GRATIOT COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended September 30, 2007, the fund balance of the General Operations Fund increased \$439,047 as compared to an increase of \$115,714 in the fund balance for fiscal year ended September 30, 2006. Total operating revenues were \$8,355,932, an increase of \$1,647,512 as compared to prior year. This change in revenues resulted primarily from an increase in Federal monies, MTF funds, and State trunkline revenue.

Total expenditures were \$7,357,631, an increase of \$439,291 as compared to the prior year. This change in expenditures is primarily due to the increase in local and primary preservation/structural improvements and an increase in State trunkline expenditures for fiscal year 2007.

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the fiscal year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the fiscal year.

The original revenue budget for fiscal year 2007 was less than the actual revenue by \$932,363. This was due, in large part, to the MTF being higher (\$199,252), more state maintenance revenue than expected (\$567,963), more Federal money received (\$138,782), more State money received (\$18,496), less township contributions than expected (\$87,698), more interest earned (\$48,998), a higher gain on equipment disposal than anticipated (\$58,665), and more permit/weight fees than expected (\$12,272).

The Road Commission's original expenditures were projected at \$7,718,710, while actual expenditures were \$7,916,884. This resulted in total expenditures being over budget by \$198,174. This was primarily due to the Primary Road Expense being understated by \$342,181, Local Road Expense being understated by \$260,015, Net Equipment Expense being understated by approximately \$391,785, Net Administrative Expense being understated by \$159,048, Net Capital Outlay being overstated by \$16,492, the spreading of the Distributive Expenses of \$1,450,000 reducing the beginning balance, the State Maintenance and Non-Maintenance being understated by \$485,596, and Other Non-Road Projects and Interest being understated by \$26,042.

GRATIOT COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets and Debt Administration

Capital Assets

As of fiscal year end September 30, 2007, the Road Commission had \$26,581,580 invested in capital assets as follows:

	2006	2007	Total Percentage Change 2006-2007
Capital Assets Not Being Depreciated			
Land	\$ 116,903	\$ 116,903	0.00%
Infrastructure--Land Improvements	424,720	505,401	19.00%
Land/Right-of-Way	3,086	3,086	0.00%
Subtotal	<u>544,709</u>	<u>625,390</u>	<u>14.81%</u>
Capital Assets Being Depreciated			
Land Improvements	59,959	59,959	0.00%
Buildings	2,213,570	2,237,985	1.10%
Equipment (Rd, Shop, Engr, Office)	5,833,020	5,916,890	1.44%
Yard and Storage	16,573	16,573	0.00%
Infrastructure	<u>37,713,372</u>	<u>38,568,639</u>	<u>2.27%</u>
Subtotal	<u>45,836,494</u>	<u>46,800,046</u>	<u>2.10%</u>
Total Capital Assets	<u>46,381,203</u>	<u>47,425,436</u>	<u>2.25%</u>
Total Accumulated Depreciation	<u>(20,358,625)</u>	<u>(20,843,856)</u>	<u>2.38%</u>
Total Net Capital Assets	<u><u>\$ 26,022,578</u></u>	<u><u>\$ 26,581,580</u></u>	<u><u>2.15%</u></u>

The Road Commission reported the infrastructure and related assets during the current fiscal year in the amount of \$3,237,836. The infrastructure recorded, during fiscal year 2007, will be depreciated in the following fiscal year. The infrastructure is financed through Federal, State and local contributions.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by location)	\$ 486,229
Various Resurfacing Projects and Related Land/Right-of-Way	2,155,177
Land and Improvements	80,681
Trucks/Equipment	460,018
Administrative, Engineering and Shop Equipment	<u>55,731</u>
Total Additions	<u><u>\$ 3,237,836</u></u>

GRATIOT COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

There was no installment purchase agreements entered into during fiscal year 2007. All the equipment purchased was acquired with Road Commission funds.

During fiscal year 2007, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$407,465, with related depreciation of \$279,765 and net book value of \$127,700.

Debt

The Road Commission currently experiences a relatively debt free status. Bonds issued in prior years have been paid off and retired. The Road Commission currently has long-term debt in the amount of \$311,972, a decrease of \$251 from the prior year, which represents compensated absences payable at September 30, 2007.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2007 budget. One of the factors is the economy. The Road Commission derived approximately 51.66% of its revenues from the fuel tax collected in fiscal year 2007.

The board realizes, and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Gratiot County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Gratiot County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Gratiot County Road Commission administrative offices at: 200 Commerce Drive, Ithaca, MI 48847.

GRATIOT COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2007

EXHIBIT A

ASSETS

Cash	\$ 1,539,753
Investments	
Accounts Receivable	
Sundry Accounts	5,847
State--Trunkline Maintenance	33,624
Michigan Transportation Fund	746,483
Due on County Road Agreements	30,102
Inventories	
Road Materials	167,188
Equipment Parts and Materials	136,974
Capital Assets (Net of Accumulated Depreciation)	<u>26,581,580</u>
Total Assets	<u>29,241,551</u>

LIABILITIES

Current Liabilities	
Accounts Payable	62,838
Due to State of Michigan	31,516
Accrued Liabilities	33,113
Noncurrent Liabilities	
Advances From State	169,559
Vested Employee Benefits Payable	<u>311,972</u>
Total Liabilities	<u>608,998</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	26,581,580
Restricted for County Roads	<u>2,050,973</u>
Total Net Assets	<u><u>\$ 28,632,553</u></u>

The Notes to Financial Statements are an integral part of this statement.

GRATIOT COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

EXHIBIT B

Program Expenses	
Primary Road	
Routine and Preventive Maintenance	\$ 1,335,110
Local Road	
Routine and Preventive Maintenance	2,619,410
State Trunkline Maintenance	1,085,596
Net Equipment Expense	(129,286)
Net Administrative Expense	407,348
Infrastructure Depreciation	2,013,662
Compensated Absences	(251)
Other	24,518
Interest Expense	1,524
Total Program Expenses	<u>7,357,632</u>
Program Revenue	
Charges for Services	
Licenses and Permits	37,273
Charges for Services	1,153,215
Reimbursements	1,190
Contributions From Local Units	53,106
Other Contributions	54,191
Operating Grants and Contributions	
Michigan Transportation Funds	4,736,249
Investment Earnings	68,998
Capital Grants and Contributions	
Federal Grants	1,148,782
State Grants	230,000
Contributions From Local Units	745,515
Total Program Revenue	<u>8,228,518</u>
Net Program Revenue	<u>870,886</u>
General Revenue	
Gain on Equipment Disposal	<u>127,415</u>
Total General Revenue	<u>127,415</u>
Change in Net Assets	998,301
Net Assets	
Beginning of Year	<u>27,634,252</u>
End of Year	<u><u>\$ 28,632,553</u></u>

The Notes to Financial Statements are an integral part of this statement.

**GRATIOT COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2007**

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	General Operating Fund
<u>ASSETS</u>	
Cash	\$ 1,539,753
Accounts Receivable	
Due From Townships	30,102
State Trunkline Maintenance	33,624
Michigan Transportation Fund	746,483
Sundry Accounts	5,847
Inventories	
Road Materials	167,188
Equipment Parts and Materials	136,974
	<hr/>
Total Assets	<u>\$ 2,659,971</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 62,838
Accrued Liabilities	33,113
Due to State of Michigan	31,516
Advances From State	169,559
	<hr/>
Total Liabilities	<u>297,026</u>
Fund Equities	
Fund Balance	
Reserve for Inventory	304,162
Unreserved and Undesignated	2,058,783
	<hr/>
Total Fund Equities	<u>2,362,945</u>
Total Liabilities and Fund Equities	<u>\$ 2,659,971</u>

The Notes to Financial Statements are an integral part of this statement

**GRATIOT COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2007**

EXHIBIT D

Total Governmental Fund Balance	\$ 2,362,945
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	26,581,580
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Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(311,972)</u>
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Net Assets of Governmental Activities	<u><u>\$28,632,553</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

**GRATIOT COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2007**

EXHIBIT E

	Operating Fund
Revenues	
Licenses and Permits	\$ 37,273
Federal Aid	1,148,782
State Aid	4,966,249
Contributions From Local Units	798,621
Charges for Services	1,150,324
Interest and Rents	71,138
Other Revenue	183,545
	<hr/>
Total Revenues	8,355,932
	<hr/>
Expenditures	
Public Works	7,399,611
Capital Outlay	515,749
Interest Expense	1,524
	<hr/>
Total Expenditures	7,916,884
	<hr/>
Excess of Revenues Over (Under) Expenditures	439,048
	<hr/>
Excess of Revenues and Other Financing Sources Over Expenditures	439,048
	<hr/>
Fund Balance Restated--October 1, 2006	1,923,898
	<hr/>
Fund Balance--September 30, 2007	\$ 2,362,946
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**GRATIOT COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ 439,047
--	------------

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	559,003
--	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	<u>251</u>
--	------------

Change in Net Assets of Governmental Activities	<u><u>\$ 998,301</u></u>
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The Notes to Financial Statements are an integral part of this statement.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Gratiot County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Gratiot County Road Commission.

NOTE A--REPORTING ENTITY

The Gratiot County Road Commission, which is established pursuant to the County Road Law, Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Gratiot County Road Commission, a discretely presented component unit of Gratiot County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Gratiot County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Gratiot County Road Commission as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of five years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. All Road equipment is capitalized if there is a schedule C rate for it regardless of the cost.

Governmental Accounting Standards Board (GASB) Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. Effective with the fiscal year ended September 30, 2003, the Gratiot County Road Commission adopted the provisions of GASB Statement No. 34 and also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	5 to 10 years
Office Equipment	5 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE D--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91 et seq., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

At year end (and during the year), the Road Commission did not have any investments, the deposits were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposits)	\$ 1,539,553
Petty Cash and Cash on Hand	<u>200</u>
Total	<u>\$ 1,539,753</u>

The bank balance of the Road Commission's deposits is \$1,725,620, of which \$300,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2007. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to credit risk. The policy does contain provisions to limit the Road Commission's exposure to concentration of credit risk.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s), or a specific class of securities.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

NOTE E--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Gratiot County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Account Balances 10/01/06	Additions	Deductions	Account Balances 09/30/07
Capital Assets Not Being Depreciated				
Land	\$ 116,903			\$ 116,903
Infrastructure--Land/Right-of-Way	3,086			3,086
Infrastructure--Land Improvements	424,720	\$ 80,681		505,401
Subtotal	544,709	80,681	\$ -	625,390
Capital Assets Being Depreciated				
Land Improvements	59,959			59,959
Buildings	2,213,570	24,415		2,237,985
Road Equipment	5,377,341	460,018	407,465	5,429,894
Shop Equipment	139,263			139,263
Office Equipment	221,380	15,926		237,306
Engineer's Equipment	95,036	15,391		110,427
Yard and Storage	16,573			16,573
Infrastructure--Bridges	14,734,904	486,229	7,448	15,213,685
Infrastructure--Roads	22,973,910	2,155,176	1,778,690	23,350,396
Infrastructure--Traffic Signals	4,558			4,558
Total	45,836,494	3,157,155	2,193,603	46,800,046
Less Accumulated Depreciation				
Land Improvements	38,290	1,723		40,013
Building	592,642	39,029		631,671
Road Equipment (See Note 1 Below)	4,354,895	465,742	279,764	4,540,873
Shop Equipment	88,651	8,680		97,331
Office Equipment	167,964	16,361		184,325
Engineer's Equipment	84,153	5,107		89,260
Yard and Storage	12,498	829		13,327
Infrastructure--Bridges	4,948,514	304,921	7448	5,245,987
Infrastructure--Roads (See Note 1 Below)	10,066,753	1,708,668	1,778,690	9,996,731
Infrastructure--Traffic Signals	4,265	73		4,338
Total	20,358,625	2,551,133	2,065,902	20,843,856
Net Capital Assets Being Depreciated	25,477,869	3,157,155	2,678,834	25,956,190
Total Net Capital Assets	<u>\$26,022,578</u>	<u>\$ 3,237,836</u>	<u>\$ 2,678,834</u>	<u>\$ 26,581,580</u>

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

Depreciation Expense

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 465,742
Indirect Equipment	
Shop Building	25,357
Storage Building	829
Shop Equipment	8,680
State Salt Shed	8,929
Net Administrative Expense	
Buildings	4,743
Office Equipment and Furniture	16,361
Engineers Equipment	5,107
Land Improvements	1,723
Infrastructure	<u>2,013,662</u>
Total Depreciation Expense	<u><u>\$ 2,551,133</u></u>

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>10/01/06</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/07</u>
Vested Employee Benefits			
Vacation Benefits	\$ 155,125	\$ 2,799	\$ 157,924
Sick Leave Benefits	<u>157,098</u>	<u>(3,050)</u>	<u>154,048</u>
Total	<u><u>\$ 312,223</u></u>	<u><u>\$ (251)</u></u>	<u><u>\$ 311,972</u></u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned are credited to his/her bank monthly for salaried employees and annually for union employees, as determined on their anniversary date and years of service. Maximum allowable accumulations are 450 hours for salaried employees and 320 hours for all other full time Road Commission employees. Upon separation from employment, 100% of accumulated vacation leave is payable to employees.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

Sick Leave Benefits

The Road Commission's employment policies provide that every salaried employee shall accumulate sick leave with pay at the rate of 8 hours per month, not to exceed 96 hours per year, with unlimited accumulation. Every union employee shall accumulate sick leave with pay at the rate of 5.34 hours per month, not to exceed 64 hours per year, with a maximum accumulation of 1,040 hours (130 days). Any employee, upon reaching an accumulation of 1,040 hours (130 days) of unused sick time, shall be paid for all additional accrual of sick time at 75% of the employee's current rate on the first pay in the month of December. An employee with a minimum of 3 years service and unused sick leave in excess of 240 hours (thirty days), may opt to sell back to the Road Commission up to 160 hours (20 days) of sick leave annually at 1/2 of the employee's current rate provided their accumulation would not drop below 240 hours (30 days).

Upon death, resignation or retirement, union employees shall be paid 1/2 of their accumulated sick leave (computed on a maximum of 1040 sick leave hours) at the employee's prevailing rate of pay at the time of the termination of employment. Upon death, retirement or termination, salaried employees shall receive a payment of sick leave days paid at their current pay scale, not to exceed 520 hours. Sick leave herein is recorded at 100% of maximum payable leave.

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Gratiot County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the calendar year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a), State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which requires employees to contribute 3% of their annual compensation to the plan, which amounted to \$51,246. The Road Commission is required to contribute at an actuarially determined rate; the current rate was 10.1% for general employees and 6.01% for salaried employees, for the calendar year December 31, 2006, based on 2004 actuarial determination.

Annual Pension Cost

During the calendar year ended December 31, 2006, the Road Commission's contributions totaling \$226,128 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2004. The employees contributed \$51,246 in accordance with the personnel policy and bargaining unit agreement. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer's normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ 128,685	100%	\$0
2005	134,457	100%	0
2006	226,128	100%	0

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
12/31/04	\$ 9,665,886	\$10,337,470	\$ 671,584	94%	\$ 1,659,170	40%
12/31/05	9,910,430	10,638,710	728,280	93%	1,657,109	44%
12/31/06	10,379,713	12,389,902	2,010,189	84%	1,691,578	119%

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Gratiot County Road Commission became a charter member in 1982.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--POST-EMPLOYMENT BENEFITS

The Road Commission agrees to pay the first \$400 per month towards the hospitalization coverage premium for any employee who retires after the effective date (August 1, 2000 for union and December 1, 2000 for salaried employees), and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2007.

Effective August 1, 2003, the Road Commission agrees to pay the first \$600 per month towards the hospitalization coverage premium for any employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. One person qualified under this policy during the fiscal year ending September 30, 2007.

Effective March 1, 2006, the Road Commission agrees to pay the first \$500 per month towards the hospitalization coverage premium for any **union** employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. Two people qualified under this policy during the fiscal year ending September 30, 2007.

Effective February 1, 2006, the Road Commission agrees to pay the first \$350 per month towards the hospitalization coverage premium for any **salaried** employee who retires after the effective date and is eligible for full retirement benefits under the current pension plan qualifications until said retired employee attains the age of 65 or Medicare eligible. Retirees that are eligible for this benefit may choose to opt out of the retiree hospitalization coverage and receive in lieu of said coverage 50% of the amount the employer would otherwise have been required to pay, provided the retiree can provide documentation proving that the **salaried** employee has comparable health care coverage. Payment will be approved annually at the first board meeting in January of each year. One person qualified under this policy during the fiscal year ending September 30, 2007.

The Road Commission funds this benefit on a pay-as-you-go-basis and contributed \$24,750 for hospitalization benefits during the fiscal year ended September 30, 2007.

GRATIOT COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2007, the Federal aid received and expended by the Road Commission was \$1,148,782 for contracted projects. The Road Commission neither received nor expended any Federal money for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission.

NOTE L--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

GRATIOT COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2007

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
License and Permits				
Permits	\$ 25,000	\$ 37,220	\$ 37,273	\$ 53
Federal Aid				
Surface Transportation Program	570,000	978,414	978,414	-
Hazard Elimination Safety	440,000	14,577	14,578	1
Economic D Funds	-	155,789	155,790	1
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,421,500	2,471,500	2,530,842	59,342
Local Road	1,522,000	1,599,200	1,602,340	3,140
Primary Urban Road	150,000	152,700	157,842	5,142
Local Urban Road	28,000	28,000	29,729	1,729
Jobs Today	142,000	230,000	230,000	-
Critical Bridge	475,000	405,496	405,496	-
Contributions--Local Units				
Townships	886,319	798,620	798,621	1
Charges for Services				
State Trunkline Maintenance	600,000	790,500	794,355	3,855
State Trunkline--Other	-	373,600	346,466	(27,134)
Salvage Sales	6,000	9,400	9,434	34
Other	-	-	69	69
Interest and Rents				
Interest Earned	20,000	67,640	68,998	1,358
Rentals	-	2,139	2,140	1
Other Revenue				
Private Contributions	58,000	54,190	54,190	-
Reimbursements	-	-	1,940	1,940
Gain on Equipment Disposal	68,750	81,152	127,415	46,263
Total Revenue and Other Financing Sources	7,422,569	8,260,137	<u>\$ 8,355,932</u>	<u>\$ 95,795</u>
Fund Balance Restated--October 1, 2006	1,291,668	1,354,897		
Total Budget	<u>\$ 8,714,237</u>	<u>\$ 9,615,034</u>		

GRATIOT COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2007

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,470,970	\$ 1,879,593	\$ 1,812,785	\$ 66,808
Routine and Preventive Maintenance	1,150,000	1,350,000	1,328,520	21,480
Local Road				
Preservation/Structural Improvements	637,600	460,145	423,072	37,073
Routine and Preventive Maintenance	2,050,000	2,680,000	2,618,736	61,264
Primary Road Structure				
Preservation/Structural Improvements	655,140	535,140	475,396	59,744
Routine and Preventive Maintenance	5,000	8,500	6,590	1,910
Local Road Structure				
Preservation/Structural Improvements	100,700	36,170	10,833	25,337
Routine and Preventive Maintenance	5,000	680	674	6
State Trunkline Maintenance	600,000	760,000	739,130	20,870
State Maintenance--Other	-	350,000	346,466	3,534
Equipment Expense--Net	(530,000)	(57,350)		
Direct			\$ 910,914	
Indirect			463,390	
Operating			284,835	
Less: Equipment Rentals			<u>(1,797,355)</u>	80,866
Distributive Expenditures	1,450,000			
Administrative Expense--Net	248,300	483,258		
Administrative Expense			502,999	
Less: Handling Charges			(1,846)	
Overhead--State			(93,803)	
Purchase Discounts			<u>(2)</u>	75,910
Non-Road Projects	-	25,000	24,518	482
Capital Outlay--Net	(124,000)	(116,199)		
Capital Outlay			515,749	
Less: Depreciation Credits			(528,542)	
Equipment Retirements			<u>(127,699)</u>	24,293
Interest	-	2,000	1,524	476
Total Expenditures	7,718,710	8,396,937	<u>\$ 7,916,884</u>	<u>\$ 480,053</u>
Fund Balance--September 30, 2007	995,527	1,218,097		
Total Budget	<u>\$ 8,714,237</u>	<u>\$ 9,615,034</u>		

GRATIOT COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2007

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$4,504,397	\$2,458,188	\$1,393,347	\$8,355,932
Total Expenditures	3,808,848	3,154,362	953,674	7,916,884
Excess of Revenues Over (Under) Expenditures	695,549	(696,174)	439,673	439,048
Other Financing Sources (Uses) Optional Transfers	(806,605)	806,605		
Total Other Financing Sources (Uses)	(806,605)	806,605	-	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(111,056)	110,431	439,673	439,048
Fund Balance Restated October 1, 2006	697,149	695,089	531,660	1,923,898
Fund Balance--September 30, 2007	\$ 586,093	\$ 805,520	\$ 971,333	\$2,362,946

GRATIOT COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended September 30, 2007

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
License and Permits				
Permits			\$ 37,273	\$ 37,273
Federal Aid				
Surface Transportation Program	\$ 978,414	-		978,414
Hazard Elimination	14,578			14,578
Economic D Funds	155,790			155,790
State Aid				
Michigan Transportation Fund				
Engineering	5,844	\$ 4,156		10,000
Allocation	2,530,842	1,602,340		4,133,182
Urban Roads	157,842	29,729		187,571
Snow Removal				
Jobs Today	230,000	-		230,000
Critical Bridge	405,496	-		405,496
Contributions--Local Units				
Townships		745,515	53,106	798,621
Charges for Services				
State Trunkline Maintenance			794,355	794,355
State Trunkline Nonmaintenance			346,466	346,466
Salvage Sales			9,434	9,434
Interest and Rents				
Interest Earned	25,003	24,928	19,067	68,998
Rentals			2,140	2,140
Other Revenue				
Private Contributions	588	51,520	2,082	54,190
Reimbursements	-	-	1,940	1,940
Gain on Equipment Disposal			127,415	127,415
Total Revenue and Other Financing Sources	\$ 4,504,397	\$ 2,458,188	\$ 1,393,347	\$ 8,355,932

GRATIOT COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2007

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,812,785			\$ 1,812,785
Routine and Preventive Maintenance	1,328,520			1,328,520
Local Road				
Preservation/Structural Improvements		\$ 423,072		423,072
Routine and Preventive Maintenance		2,618,736		2,618,736
Primary Road Structures				
Preservation/Structural Improvements	475,396			475,396
Routine and Preventive Maintenance	6,590			6,590
Local Road Structures				
Preservation/Structural Improvements		10,833		10,833
Routine and Preventive Maintenance		674		674
State Trunkline Maintenance			\$ 739,130	739,130
State Maintenance--Other			346,466	346,466
Equipment Expense--Net (Per Exhibit H)	(37,028)	(78,866)	(22,322)	(138,216)
Administrative Expense--Net (Per Exhibit H)	221,061	186,287		407,348
Non Road Projects			24,518	24,518
Capital Outlay--Net (Per Exhibit H)		(6,374)	(134,118)	(140,492)
Interest	1,524	-		1,524
Total Expenditures	\$ 3,808,848	\$ 3,154,362	\$ 953,674	\$ 7,916,884



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 7, 2007

Gratiot County Road Commission
Board of County Road Commissioners
200 Commerce Drive
Ithaca, Michigan 48847

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Gratiot County Road Commission, a component unit of Gratiot County, as of and for the year ended September 30, 2007, and have issued our report thereon dated December 7, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Gratiot County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Gratiot County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Gratiot County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Gratiot County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Gratiot County Board of Road Commissioners, management, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division